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UNITED STATES DEPARTMENT OF AGRICULTURE
Production and Marketing Administration

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ANNUAL REPORT OF THE DAIRY BRANCH
Fiscal Year 1946

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Programs of the Dairy Branch during the year were aimed primarily at maintaining needed high milk production and at readjusting the dairy economy to a peacetime basis.

Total milk production was estimated at an all-time record of 121 billion pounds for the fiscal year, or slightly more than the revised production estimate for the previous year. There were fewer cows, continued shortages of farm labor and equipment, and a growing scarcity of feed grains as a result of continued high livestock production. Farmers were aided in achieving record milk production by good summer pastures in both 1945 and 1946. Increased returns resulted primarily from higher subsidy payments.

Total demands for milk and its products were at least as large as during any of the war years and at ceiling prices exceeded the available supplies. Lend-lease requirements were largely replaced by the urgent needs of foreign buying countries, UNRRA, and military agencies to relieve the critical postwar food shortages abroad. Although requirements for direct military uses declined sharply, the civilian demands increased with the return of military personnel to civilian life.

In accordance with the President's announced policy of ending wartime controls as soon as practicable, distribution controls of milk and its products, including War Food orders and rationing, were either discontinued or relaxed soon after the end of hostilities. At that time Government agencies had substantial stocks of dairy products, and there were uncertainties regarding future military and export needs, as well as domestic demands which would be influenced by postwar employment and the flow of industrial goods into the markets. Continuing large domestic demands made it necessary again to resort to set-aside orders in May and June 1946, to meet the requirements of war service agencies and to supply the needs for famine relief in war-torn countries.

About 5 percent of the total milk produced during the year was acquired by Government agencies in the form of dairy products for war service and export uses. Per-capita civilian consumption of milk and its products as a group approximated the average rate in the 5 years preceding the war. The end of distribution controls was followed by further increases in consumption of fluid milk and cream, ice cream, and some types of cheese. Diversion of butterfat to these uses resulted in a further sharp decline in the production of butter to the lowest level in 25 years and its supply was by far the shortest of any dairy products in relation to the demand. Evaporated milk and Cheddar cheese production declined from the high wartime rates. With lower military and export requirements, civilian supplies of these products were larger than during the war. Nonfat dry milk production approximated the previous year's record rate at more than double prewar production, and supplies for domestic uses were greater than during the war years as military and export requirements declined.

The commodity Credit Corporation expended approximately \$554,000,000 in dairy subsidies during the year. These included approximately \$534,000,000 in milk and butterfat production payments directly to farmers, \$10,000,000 in payments to Cheddar cheese manufacturers, and \$10,000,000 in payments to fluid milk handlers in a number of markets. The payments to manufacturers and handlers enabled them to pay farmers higher prices than they otherwise could have paid under existing market price ceilings for milk and cheese. The direct production payments supplemented the prices farmers received for their milk and butterfat. These subsidies represented approximately 15 percent of the total returns to producers.

The marketing agreement and order program under the Agricultural Marketing Agreement Act of 1937 was continued and expanded during the year, with major emphasis placed on revision of existing orders to provide for needed changes during the reconversion period.

Office of Price Administration ceiling prices of fluid milk and dairy products were continued with some changes during the year. In accordance with the general postwar policy of removing wartime controls, plans were made for terminating subsidies and adjusting price ceilings upward correspondingly during the fiscal year. As a part of this plan, the butter price roll-back subsidy to manufacturers of 5 cents a pound, administered and paid by the Reconstruction Finance Corporation, was ended on November 1, 1945; the Commodity Credit Corporation Cheddar cheese subsidy of 3-3/4 cents a pound was ended on February 1, 1946; and the price ceilings for these products were increased correspondingly on these dates.

Meanwhile, in order to encourage high milk production under price ceiling controls by relieving producers of as much uncertainty as possible concerning returns, the Stabilization Administrator in January announced that the general level of returns to milk producers would be maintained during 1946 at the 1945 level either by the payment of subsidies or by increases in price ceilings should the subsidy be eliminated. On April 15, the Director of Economic Stabilization announced that because of increased costs of producing milk, returns to dairymen would be increased during May and June by production payments equivalent to 20 cents per hundred pounds of milk higher than a year earlier. He also announced that an additional increase in returns of 20 cents per hundred pounds over a year earlier would be granted on July 1 either by means of raising price ceilings or increasing production payments. On May 29, he issued an announcement and a directive in which it was stated that the recent increases in grain ceiling prices and feed costs necessitated a still further increase of 20 cents per hundred pounds in dairymen's returns. The directive ordered immediate price ceiling increases for fluid milk and major dairy products equivalent to 40 cents per hundred pounds of milk. Ceiling prices were adjusted in accordance with this directive during the month of June.

In an effort to increase butter production, the May 29 directive provided for the establishment of price ceilings on manufacturing milk and butterfat and for the issuance of War Food orders to channel more butterfat into the manufacture of butter. Ceiling prices on manufacturing milk and cream were established in June and War Food Order No. 149, prohibiting the sale of whipping cream was issued to be effective July 1.

MARKET NEWS

Reliable market information on a Nation-wide basis is important to both producers and processors of dairy products and poultry products. During the fiscal year 1946, market news operations were continued along the same general lines followed in previous years. Timely information on dairy and poultry product markets was regularly collected and published. This information covered supply, demand, movements, prices, price-quality relationships, and other related market developments for use in planning and conduction market operations.

Problems arising as a result of the war and reconversion made price reporting during the past year especially difficult. The factors which made it more difficult were shifts in production, changes in the types of products produced, and developments of new market outlets. A further difficulty encountered was the relative scarcity of some dairy products and the resulting lack of trading in the central markets.

Although there were numerous requests for the establishment of additional market news services, no major expansion in the service was possible because of limitations on funds and personnel. The general policy of encouraging Federal-State cooperation in market news activities was continued. A cooperative agreement with the Iowa State Department of Agriculture became effective July 1, 1945. Arrangements were being made as the fiscal year ended to report prices paid producers currently for eggs and live poultry and to report quantities marketed. This Iowa project is a further step in reporting prices at country shipping points. This type of reporting gives producers current information on prices at points close to where their products are first sold.

Information has been added to published market reports in New York on weekly prices of frozen eggs and dried eggs, and work in reporting prices of dressed poultry has also been undertaken. During the year, the Chicago office began reporting frozen egg and dressed poultry prices weekly. Due to the increasing importance of dressed poultry production in New England, reporting of daily prices of ice-packed and dry-packed products was started in Boston. That office has also added to its report weekly prices of nonfat dry milk solids, dried whey, frozen cream, and plastic cream. Dressed poultry prices were added to the Los Angeles report during the year, and live poultry prices were changed from twice weekly to a daily basis at Seattle. A plan of issuing monthly market reviews covering products included in the local coverage was initiated at most offices. Surveys preliminary to reporting weekly movements of butter and eggs into retail channels have been completed at New York, Philadelphia, and Boston, and it is expected that the assembling and publication of this information will get under way early in the coming fiscal year.

Three supplements to the Dairy and Poultry News Hand Book were issued during the year. One of these which dealt with shipping point prices defined the scope of this type of information from the standpoint of market news and outlined price reporting policy. A second supplement dealt with trade discounts. In a third supplement on terminology, detailed definitions of terms to be used in describing price changes, tone and trend of markets, and supply and demand conditions, were set forth.

A special publication was issued during the year under the title of "Post War Use of Market Quotations", in which attention was directed to changes in dairy and poultry marketing practices over a period of years, before and during the war, and the effect of these changes upon the continued use of market quotations in the same manner as before these changes occurred.

Provision for expansion of market news activities was included in recommendations made in the Congressional hearings on the Department appropriation bill for 1946-47. As a result of the approval of these recommendations, market news offices will be established during the coming year at Detroit, Cincinnati, and Atlanta. With the addition of the above-mentioned offices, market news service on dairy and poultry products will be available in 17 cities. Present offices of the division proper are located at New York, Chicago, Philadelphia, Boston, San Francisco, Los Angeles, Portland, and Seattle. Limited service is also available at Baltimore, Washington, Pittsburgh, Denver, New Orleans, and Fort Worth, through a cooperative arrangement with the Fruit and Vegetable Market News Division.

GRADING AND INSPECTION

The principal objective of this work is to provide efficient and unbiased grading and inspection service. The grading programs are designed to provide an accurate interpretation and application of the tentative and official United States standards and grades for dairy and poultry products which can be used as a reliable basis for the buying and selling of these products. The inspection program is designed to provide unbiased inspection to determine the condition and wholesomeness of poultry and poultry products.

Since relatively large Government procurement programs continued throughout the fiscal year, much of the work of grading and inspection was in connection with Government purchases. Approximately 4 million pounds of poultry procured by the War Shipping Administration under War Food Order No. 119, was graded. In addition, the Department supervised the packaging of this product. Supervision of the production and grading of dried and frozen eggs continued on a considerable scale, although somewhat less than in the war years. Since large supplies of Government-owned products continued to be held in public warehouses, it was necessary to make condition examinations of such products prior to disposition. In addition to this, a considerable amount of grading in connection with large quantities of poultry and eggs purchased by the armed forces was necessary. The grading and inspection of all poultry and egg products supplied to ships under War Shipping Administration control was continued.

With the removal of War Food Order No. 119, the grading work which had been performed for the War Shipping Administration as a Government agency, gradually decreased since many ships were being returned to private operation. Shipping companies expressed themselves almost unanimously in favor of continuing this inspection and grading service on dairy and poultry products in order to protect their purchases under private operation.

During the war, the breaking of eggs which were to be sold to Government agencies was under continuous Government supervision, and there was considerable expansion in the grading of dressed poultry. With the decline in

Government procurement, there has been considerable interest expressed in having these services continued on a commercial basis.

The work of grading shell eggs as a result of requirements of the Office of Price Administration for the grade identification of shell eggs was continued.

The inspection of poultry and poultry products for condition and wholesomeness has expanded since the end of the war. This service is now being furnished in 117 plants located in 23 states.

The three laboratories located at Chicago, Seattle, and San Francisco continued to provide the analytical service required under the Government purchase programs.

In table 1 the volume of dairy and poultry products inspected and/or graded in the fiscal years 1944, 1945, and 1946, is shown. The volume varied with changes in production, changes in Government purchases, and changes in the marketing channels.

PURCHASES

During the past year the Branch entered into contracts for the purchase of dairy products for the Department to be supplied to UNRRA and other foreign claimants.

The quantity of products purchased and the total costs of the products are shown in table 2.

Of the total amount of dairy products purchased, 6,700,000 pounds of evaporated milk was purchased with section 32 funds under the school lunch program for Puerto Rico.

ADMINISTRATION OF MARKETING AGREEMENTS AND ORDERS

The Branch continued the operation of marketing agreements and orders under the Agricultural Marketing Agreement Act, as amended. During the past year there were in effect 29 marketing agreement and order programs for fluid milk and one agreement and license for evaporated milk. Approximately 131,578 producers, producing almost 14 billion pounds of milk valued at almost 475 million dollars, were under the marketing agreement program for fluid milk. New orders were issued in four marketing areas: Columbus, Ohio; Dayton-Springfield, Ohio; Tri-State; and Minneapolis-St. Paul.

During the year 24 hearings were held and 2 were reopened to consider the issuance of orders in new areas or to amend existing orders. A promulgation hearing was held in Cleveland, Ohio, in November 1945 and in January 1946. At the close of the fiscal year plans had been made for holding a referendum to determine whether producers were in favor of the issuance of an order. In addition, there were requests from producers in a number of markets for the Branch to give consideration to the question of initiating action on order programs.

Table 1. Amount of dairy and poultry products graded and/or inspected during fiscal years 1944, 1945, and 1946

Commodity	Fiscal Year 1944	Fiscal Year 1945	Fiscal Year 1946 (partly estimated)
	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>
Butter	358,069,786	218,141,561	175,409,106
Cheese	294,092,526	188,252,187	205,970,988
Eggs (cases)	10,179,543	12,190,259	9,637,430
Dressed poultry			
(Shipping point and terminal markets)	91,458,617	112,804,005	164,699,214
Dressed poultry			
(Inspected for condition and wholesomeness)	180,629,751	208,191,099	241,622,541
Live poultry	18,514,926	549,138	125,975
Dressed turkeys	43,729,812	46,635,108	94,447,010
Frozen eggs - graded	12,177,392	7,609,501	24,842,890
Frozen eggs - inspected	4,532,606	94,189,291	
Dry milk	360,199,437	400,217,486	175,709,398
Evaporated milk	14,400,193	14,295,296	9,133,135
Dried eggs	261,558,327	172,830,975	67,106,219
Butter oil	14,217,531	7,562,152	306,482
Butter for butter oil	20,299,091	5,855,821	none
Carter's spread	44,712,481	1,913,284	none
Butter for Carter's Spread	39,538,104	1,041,334	none

Table 2. Purchases from July 1, 1945, through
June 30, 1946

Commodity	Quantity	Total cost
	<u>Pounds</u>	<u>Dollars</u>
Butter, unsalted.	1,103,680	473,677
Army spread	9,326,339	4,365,545
Cheese, American	158,985,459	48,464,065
Cheese, processed	38,860,303	12,785,057
Milk, sweetened condensed	24,301,035	3,579,447
Milk, evaporated	824,121,775	83,104,285
Milk, dried nonfat, roller	77,550,899	10,651,861
Milk, dried nonfat, solids	61,855,977	9,107,141
Milk, dried whole	71,710,160	28,221,640
Malted milk tablets	84,084	15,000
Casein processed acid	600,000	144,600
Rennet, powdered	3,382	6,906
Total	1,268,503,093	200,919,224

Since at ceiling prices the demand for milk in most cases exceeded the supply, prices generally remained at ceiling levels throughout the year. It is significant, however, that during this year, as well as during the war years, the program of market regulation has not lost vitality but has continued to expand. It is apparent that other factors distinguished from the function of establishing price levels contribute to the strength of this program. Most important among those factors are the following:

1. Full payment for milk on the basis of the use payment plan.
2. Complete accounting for the use of milk by each handler.
3. The checking of weights and butterfat tests.
4. Continuity in the assembly and distribution of statistical information affecting each market.
5. Appropriate integration of each market into the national market structure.
6. Recognition of the function and responsibility of cooperatives in the marketing of milk.

Twenty-eight petitions for administrative hearings under section 8c(15)(A) of the Agricultural Marketing Agreement Act were received from handlers in the Columbus, Ohio, marketing area, raising among other questions one with respect to the validity of the order under the commerce clause. Two other petitions were received from handlers in the New York area, one claiming exemption from the order when not shipping to the New York area, and the other having to do with the matter of producer payments. Action is still pending on these petitions, as well as on some 20 others carried over from former years. Of the seven 15(A) decisions made during the year, the petitioner's request was denied in five instances.

Four appeals were made by handlers under section 8c(15)(B) of the act for review by district courts, and one by a circuit court.

During the past year, the following notable decisions were handed down by the Circuit Court:

1. In the case of the United States of America v. Joseph Ruzicka and Charles Ruzicka, the Seventh Circuit Court reversed the judgment of the lower court which had decreed that the defendant must comply with the order and that he was not entitled to present evidence in court which would show error in the market administrator's "verification" of defendant's reports, but that such evidence should only be presented in an administrative proceeding as provided for in the act. This the defendant had not done. The Supreme Court has issued a writ of certiorari to review the case.

2. In the case of Shawangunk Cooperative Dairies, Inc. v. Jones, et al., the Second Circuit Court reversed the ruling of the ruling of the District Court and ruled that the sum paid under protest by Shawangunk was legally assessed. The significance of this case was that the handler who received milk from producers could be held responsible to account for such milk even though he received it as the agent or as a gratuitous bailee of another handler.

The amount of pooled milk, the value of the milk, and the number of producers for each market under regulation, are shown in table 3.

ADMINISTRATION OF WAR FOOD ACTIVITIES

Although actual hostilities were ended in August 1945, it was necessary for the Branch to continue many of the programs which were started during the war. The principal activities carried on were the administration of War Food orders, making of recommendations on allocations of dairy products, work in the determination of production goals, the approval of price ceiling adjustments, and the assistance given to dairy processors in obtaining equipment and supplies.

War Food Orders

At the beginning of the fiscal year there were 11 War Food orders in effect regulating the manufacture and sale of milk and dairy products. The basic purposes of these orders were to obtain a utilization of milk in accordance with war requirements, to require each manufacturer to provide his share of Government requirements, and to require milk distributors to put into effect certain economies. All these orders, except War Food Order No. 15, were terminated or suspended during the fiscal year. Two orders were reinstated and one new order was issued. WFO 15 remained in effect throughout the entire year, but manufacturers were not required to set aside any cheese during the period from September through April.

War Food Order No. 2 - Butter

War Food Order No. 2, originally effective February 1, 1943, required substantially all manufacturers of creamery butter to set aside specified percentages of their production for delivery to designated military, lend-lease, and war service agencies. For July and August 1945, the set-aside percentages were 50 percent and 20 percent respectively.

This order was terminated on September 1, 1945, and all outstanding undelivered set-aside obligations were canceled because, with the end of the war, additional supplies were not needed by the Government agencies.

By early spring of 1946, it became evident that the short supplies of butter generally would make it necessary to reissue a butter set-aside order if the military and related war service agencies were to have any assurance of obtaining their requirements. Accordingly, a new WFO 2 was issued effective May 1 requiring manufacturers to set aside for sale to the military and related war service agencies 20 percent of their butter production during May and June. The provisions of this order were substantially those of the original WFO 2, except that a provision was added to limit inventories in order to insure prompt deliveries to Government agencies.

Table 3. Estimated number of producers, estimated volume of pooled milk, and estimated total value of pooled milk at basic butterfat test, in fluid milk markets under marketing agreement programs, June 1, 1945 - May 31, 1946

Market	: Basic : : butter- : : fat : : test :	: Estimated : : number : : of pro- : : ducers :	: Estimated : : annual : : volume of : : pooled milk :	: Estimated : : value of : : pooled milk : : at basic test :
	: Percent :	: Number :	: 1,000 pounds :	: Dollars :
Boston, Mass. (191-200 mile zone)	: 3.7 :	: 13,331 :	: 1,270,896 :	: 44,268,660 :
Chicago, Ill.	: 3.5 :	: 17,265 :	: 2,619,912 :	: 82,739,944 :
Cincinnati, Ohio	: 4.0 :	: 4,678 :	: 285,828 :	: 9,459,700 :
Clinton, Iowa	: 3.5 :	: 188 :	: 12,775 :	: 381,801 :
Columbus, Ohio 1/	: 4.0 :	: 1,977 :	: 54,745 :	: 1,940,886 :
Dayton-Springfield, Ohio 2/	: 4.0 :	: 2,483 :	: 158,715 :	: 5,700,704 :
Dubuque, Iowa	: 3.5 :	: 187 :	: 25,118 :	: 746,535 :
Duluth-Superior, Minn.-Wis.	: 4.0 :	: 1,258 :	: 83,598 :	: 2,593,832 :
Fall River, Mass.	: 3.7 :	: 234 :	: 29,460 :	: 1,275,238 :
Fort Wayne, Ind.	: 4.0 :	: 794 :	: 52,134 :	: 1,754,647 :
Kansas City, Kans.-Mo.	: 3.8 :	: 1,937 :	: 193,842 :	: 6,834,810 :
La Forte County, Ind.	: 3.8 :	: 191 :	: 17,322 :	: 586,839 :
Louisville, Ky.	: 4.0 :	: 1,644 :	: 178,794 :	: 6,438,409 :
Lowell-Lawrence, Mass.	: 3.7 :	: 953 :	: 75,861 :	: 3,047,518 :
Minneapolis-St. Paul. Minn. 3/	: 3.5 :	: 8,715 :	: 507,384 :	: 15,044,695 :
New Orleans, La. (61-70 mile zone)	: 4.0 :	: 1,950 :	: 152,843 :	: 5,625,592 :
New York, N. Y. (201-210 mile zone)	: 3.5 :	: 48,258 :	: 5,733,150 :	: 193,955,503 :
Omaha-Council Bluffs, Nebr.-Iowa	: 3.8 :	: 2,384 :	: 127,835 :	: 4,013,982 :
Philadelphia, Pa.	: 4.0 :	: 8,820 :	: 918,135 :	: 36,254,229 :
Quad Cities, Ill.-Iowa	: 3.5 :	: 1,262 :	: 103,387 :	: 3,112,706 :
St. Joseph County, Ind.	: 4.0 :	: 627 :	: 59,911 :	: 2,124,669 :
St. Louis, Mo.	: 3.5 :	: 3,487 :	: 351,094 :	: 12,342,587 :
Sioux City, Iowa	: 3.5 :	: 494 :	: 29,093 :	: 890,684 :
Suburban Chicago, Ill.	:	:	:	:
Grade A	: 3.5 :	: 524 :	: 74,554 :	: 2,446,765 :
Grade B	: 3.5 :	: 2,569 :	: 205,665 :	: 6,448,580 :
Toledo, Ohio	: 3.5 :	: 2,140 :	: 134,940 :	: 4,488,178 :
Topeka, Kans.	: 4/ :	: 162 :	: 17,802 :	: 554,888 :
Tri-State, (Ky., Ohio, & W. Va.) 5/	:	:	:	:
Huntington district plants	: 3.5 :	: 501 :	: 32,250 :	: 1,169,743 :
Other than Huntington dist. plants	: 3.5 :	: 620 :	: 39,784 :	: 1,370,352 :
Washington, D. C.	: 4.0 :	: 1,553 :	: 390,563 :	: 15,615,910 :
Wichita, Kans.	: 3.8 :	: 392 :	: 41,751 :	: 1,532,301 :
Total.	:	: 131,578 :	: 13,979,141 :	: 474,760,887 :

1/ Order effective February 1, 1946.

2/ Order effective July 1, 1945.

3/ Order effective November 3, 1945.

4/ Reported as butterfat and converted to 3.5 percent milk equivalent.

5/ Order effective August 1, 1945.

Compiled from reports of the market administrators.

All the butter set aside during May and June 1946 was for use by the armed services, War Shipping Administration, or the Veterans Administration. None was purchased by the Department for use on any program. The order was planned to set aside in those 2 months of seasonally highest production about 43 million pounds, which, together with butter available from Denmark and New Zealand, would meet the minimum requirements of the armed services.

Ninety-eight petitions for relief from hardship were received during July and August 1945, and 54 during May and June 1946. Eighty-six were granted and five were denied under the 1945 order. Twenty-seven were granted and 23 were denied under the 1946 order.

War Food Order No. 8 - Frozen Dairy Foods

War Food Order No. 8, which limited the amount of milk solids which could be used in the manufacture of ice cream, was designed to channel milk solids, which might otherwise be used in making ice cream, into the manufacture of products needed for war uses. The order which became effective February 1, 1943, was continued through August 1945.

Although the order was terminated on September 1, 1945, work on compliance cases continued throughout the year. Of the 203 compliance cases reviewed, 37 were recommended for criminal action, 24 were held pending receipt of additional information, 13 were recommended for audit, and 129 were closed.

Between February 1, 1943, and September 1, 1945, there were 6,649 petitions for relief from hardship under the order. These petitions were handled as indicated in table 4.

Table 4. Actions on petitions for relief under WFO No. 8

Item	<u>Washington</u>	<u>Field Offices</u>	<u>Total</u>
Number of petitions received	3,771	2,878	6,649
Approvals increasing use of milkfat	184	--	184
Approvals not involving an increase in the use of milk fat	1,517	2,182	3,699
Denials	1,865	533	2,398
Petitions dropped without formal action	<u>1/</u> 198	<u>1/</u> 160	<u>1/</u> 358
Previous authorizations canceled	7	3	10

1/ Includes 27 petitions pending in Washington and 61 petitions pending in field offices when order was terminated.

War Food Order No. 11 - Milk Marketing Economies

War Food Order No. 11, providing for a number of measures designed to simplify milk handling operations and thereby save manpower and materials, was terminated effective November 1, 1945.

War Food Order No. 13 - Cream

War Food Order No. 13, which banned the sale of heavy cream and established quotas on the production of filled cream, was terminated effective September 1, 1945.

War Food Order No. 149, prohibiting the sale of heavy cream, was issued June 26, 1946, to be effective July 1, 1946.

War Food Order No. 15 - Cheddar Cheese

Under War Food Order No. 15, which had operated continuously since February 15, 1943, manufacturers of Cheddar cheese were required during July and August 1945 to set aside 65 percent and 60 percent of their production, respectively. The quantity set aside in those 2 months was 112 million pounds. The set-aside requirements of the order were suspended effective September 1, 1945. However, the set-aside obligations incurred prior to that date were required to be fulfilled in order to meet continued export commitments. With the exception of approximately 2 million pounds of cheese involved in compliance cases, deliveries had been substantially completed by April 1946.

The set-aside requirements were reinstated effective May 1, 1946, requiring manufacturers to set aside 40 percent of their May and June production for sale to designated Government agencies in order to meet military and foreign relief requirements.

War Food Order No. 54 - Nonfat Dry Milk Solids

Under War Food Order No. 54, manufacturers of spray process nonfat dry milk were required to set aside in July and August 1945, 75 percent and 70 percent of their production, respectively. The set-aside quantity was 37 million pounds. The Order was suspended effective September 1, 1945, and undelivered outstanding obligations of about 15 million pounds were canceled.

The order was reinstated on May 1, 1946, and manufacturers of both spray and roller process nonfat dry milk were required to set aside 60 percent of their May and June production to meet allocations to foreign buying countries, UNRRA, and other agencies for shipment to help relieve food shortages in war-torn countries. The set-aside quantity in those 2 months was approximately 105 million pounds.

The only significant change in the current order is an inventory limitation provision which requires manufacturers and authorized receivers to fulfill set-aside requirements by delivery within 2 months of the set-aside period.

Forty-nine petitions for relief under the hardship clause of the order were received during the year. Relief was granted in 47 cases. Nearly all of these cases constituted release of set-aside obligations due to the inability of the producers to deliver powder of the quality specified by the order. In addition, 44 firms were authorized to sell powder to food processors for use in fulfillment of military or lend-lease contracts.

War Food Order No. 79 - Conservation and Disposition
of Fluid Milk and Cream

War Food Order No. 79 and supplementary orders thereto for 138 major population centers were continued through July 1945. These orders, restricting sales of fluid milk and cream, established maximum monthly quotas on the deliveries of fluid milk, cream, and milk by-products which dealers might make to civilian consumers. Owing to supply and demand conditions during the last month of operation (July 1945) quota provisions generally were considerably relaxed. Milk and by-products quotas were increased.

After the close of hostilities, the quota provisions of WFO 79 were suspended on August 20, 1945, retroactive to August 1, 1945, and provisions requiring the keeping of certain records and the transmission of reports in the supplemental orders were suspended on September 21, 1945, or shortly thereafter. Petitions for relief from hardship were received and acted upon up to and including August 20.

A few court actions against handlers for violations were pending at the time the operating provisions of the order were suspended. It was recommended that the criminal actions already in process be carried through to completion. In cases where it was felt necessary to have certain reports for the completion of office records, it was also recommended that civil action for failure to file reports be carried through to conclusion. All other civil proceedings were closed. Two criminal proceedings are still pending.

Inasmuch as the program had been financed by means of Federal appropriations since June 1944, it was necessary that any Federal funds remaining in the possession of market agents be returned to the Treasury. In order to coordinate properly the details incident to a complete termination of WFO 79 business, it was determined that such funds should be returned to the Treasury through the Dairy Branch, and two liquidating agents were appointed for that purpose. These agents have been designated to liquidate the business of the offices of all the 34 market agents, with the exception of those located at New York City, Cincinnati, Ohio, and Providence, R. I. Termination of the designation of these three agents was withheld for two reasons, (1) the incompleteness of certain statistical analyses and certain WFO 79 data to be published in the New York area, and (2) completion of court proceedings. In March of this year, a \$50,000 refund was transmitted to the Treasury.

War Food Order No. 92 - Cheese and Cheese Foods

War Food Order No. 92, which became effective February 1, 1944, was designed to limit the production of all varieties of cheese other than Cheddar, cottage, pot, and baker's cheese to the quantities produced in the corresponding calendar quarter of 1942.

The quota restrictions of the order were entirely suspended for the period June 8 to July 15, 1945. An amendment permitted manufacturers to produce 90 percent of the quantity produced during the third quarter of 1942 for the period July 15 to September 30, 1945. A termination order, effective September 1, was issued on September 19, 1945.

Because of the termination of the order early in the fiscal year, the administrative functions have been limited largely to the reviewing of compliance investigations and the formulation of recommendations for action on these cases.

War Food Order No. 93 - Dried Milk Products

War Food Order No. 93, the sales limitation order on dried milk products and dried milk compounds, which became effective March 1, 1944, was terminated on August 24, 1945.

The order established quarterly sales quotas for all civilian sales of the products covered, on the basis of 1942 sales records of manufacturers. Compliance with the order was on a quarterly basis. Accordingly, the termination was effective July 1, 1945 and the order was not in operation during the current fiscal year.

War Food Order No. 95 - Milk Sugar

War Food Order No. 95, which provided for the allocation of milk sugar, was suspended on September 1, 1944, except that manufacturers were required to report their production and stocks. These reports continued until August 26, 1945, when the order was terminated.

War Food Order No. 148 - Evaporated Milk

War Food Order No. 148 was issued effective June 1, 1946. The order, which was the first evaporated milk set-aside order, became necessary in order to provide evaporated milk to meet military requirements and urgent needs for shipment to famine areas abroad.

The order required manufacturers of evaporated milk to set aside specified percentages of their monthly production for sale to designated Government agencies. Provision was made for the authorized transfer of set-aside obligations among manufacturers and for crediting advance deliveries against subsequent set-aside obligations. Inventory restriction provisions were included to encourage prompt delivery of set-aside milk.

The set-aside requirement was established at 60 percent for June, the month of seasonally highest production. It was anticipated that the order would continue until the estimated requirement of 12 million cases through 1946 was met.

Price Ceiling Adjustments

Problems in connection with the adjustment of price ceilings on milk for fluid use and on dairy products became progressively more serious during the past year. The adjustments on dairy product price ceilings were made to replace subsidies which had been discontinued or to enable manufacturers to continue production when costs of production had increased. In fluid milk markets some upward price revisions were required to prevent diversion of milk supplies. In most cases, these adjustments affected relatively small communities, but in a few large cities, notably Portland, Oreg., and Seattle, Wash., price increases were necessary primarily for the purpose of maintaining a supply of milk in the market.

Prior to June 1946, ceiling prices were not in effect on milk or cream used for manufacturing purposes. Ceiling prices were placed on milk and cream used for manufacturing purposes in June.

In addition to pricing problems related to diversion of milk supplies from specified areas, the more general problem of milk production costs grew in seriousness, especially during the first half of 1946. The cost of feed and shortages of high-quality feeds were the chief factors making it difficult for dairy farmers in almost all sections of the country to maintain their production.

In a number of cities milk strikes, in the form of organized diversions, were carried out by producers in efforts to force adjustments in ceiling prices. Representatives of the Department conferred repeatedly with representatives of the Office of Price Administration and of the Office of Economic Stabilization, in efforts to formulate price policies to meet the situation.

Allocations and Supply Estimates

Since the requirements of the United States armed forces and UNRRA, together with the demands of United States civilians and foreign governments, for dairy products far exceeded the available supply, it was necessary to maintain allocation controls on the supplies of all major dairy products produced in the United States. The Branch made estimates of prospective supplies of dairy products and recommended allocations of the supplies among the various claimants. These estimates and the allocations as finally determined were used as a basis for planning procurement and other administrative action designed to influence the utilization of milk. With the close of hostilities, the emphasis in the program shifted somewhat from procurement for military uses to that of procurement to relieve famine conditions in Europe and Asia. As a part of this work the Branch initiated a program to obtain supplies of butter outside the United States for the use of United States armed forces abroad.

In order to insure that allocations would be adhered to in practice, it was necessary to maintain controls on imports and exports of dairy products. The Branch worked with the Office of International Trade in maintaining and administering these controls.

Goals

The Department continued its practice of setting production goals for milk. The goal for 1946 was set at 120.8 billion pounds.

Materials and Equipment

Because of material and equipment shortages, it was necessary for the Branch to continue to make recommendations to the War Production Board and the Civilian Production Board on the granting of priority assistance to processors of milk and dairy products. In addition, the Branch continued to work with other agencies to see that containers for the various dairy products were made available to processors.

The Branch provided the Office of Price Administration with information to be used in the allocation of sugar for the manufacture of sweetened condensed milk and also cooperated with other Government agencies to see that assistance was given to processors of dairy products in obtaining necessary fuel, transportation equipment, and labor.

SUBSIDIES

In order to maintain needed milk production under price ceilings, the Department continued a program of making subsidy payments. There were three subsidy programs in effect during the year. Under these programs, payments were made to Cheddar cheese manufacturers, to fluid milk handlers, and directly to producers of milk and butterfat. The total amount expended on subsidy payments during the year was approximately 554 million dollars.

Dairy Production Payment Program

Direct payments to individual milk producers for milk and butterfat produced and sold by them, which were begun in October 1943, were continued throughout the year in order to encourage producers to maintain a needed high rate of milk production. Payments totaling about \$534,000,000 were made to over 2 million dairy farmers on sales of 71 billion pounds of milk and 766 million pounds of butterfat.

The rate structure maintained the same regional differentials in the rates on whole milk as had been established previously. In the Midwest, the basic rate was 45 cents per hundredweight of whole milk for the July-September period, 60 cents for the October-April 1946 period, and 45 cents for the May-June period. Rates for the other areas ranged from 10 to 30 cents higher. The payment rate on butterfat which was uniform throughout the country was 13 cents per pound during July, August, and September 1945,

17 cents per pound from October 1945 to April 1946 inclusive, and 15 cents per pound during May and June 1946. The butterfat rate reflected the new legislative requirement that it be not less than one-fourth of the national weighted average payment rate for whole milk.

In table 5, the number of producers receiving payments and the amount of the payments are shown for the fiscal years 1944, 1945, and 1946.

Cheddar Cheese Production Payments

The subsidy payments to Cheddar cheese manufacturers, which were initiated in December 1942 to enable Cheddar cheese manufacturers to maintain production under price ceilings, were continued at the basic rate of 3-3/4 cents per pound of cheese through January 31, 1946. At that time the subsidy payments were terminated and a corresponding increase in the ceiling price of Cheddar cheese was authorized.

After March 1, 1944, the program was carried on so that subsidy payments were in effect made only on Cheddar cheese going into civilian uses. On cheese purchased by Government agencies, the ceiling price was 3.8 cents per pound higher than on other sales. Since most cheese is marketed through assemblers who grade, sort, and assemble it into cartons or process it, a determination at the factory level of its final disposition was substantially impossible. Payments were continued to factories on all Cheddar cheese produced by them, but the amount of the payment on cheese ultimately sold to Government agencies at the higher ceiling prices was recovered by collection of 3.8 cents per pound from assemblers and manufacturers on sales to Government agencies.

The Dairy Products Marketing Association continued to operate the program in accordance with an agreement with the Commodity Credit Corporation and under instructions from the Dairy Branch. About 11,000 applications for payment, with supporting evidence of milk receipts and utilization, cheese production, and the distribution of payments to producers, were received and analyzed. Payments were made to approximately 1,730 manufacturers on nearly 413 million pounds of Cheddar cheese, with a net expenditure of approximately \$9,940,000.

The total amount of subsidies paid for the entire program is shown in table 6.

Fluid Milk Payment Program

The payment of subsidies to milk handlers was inaugurated in order to make it possible for handlers to pay higher prices to producers of milk without increasing prices to consumers. Higher prices to producers became necessary in some markets in order to assure an adequate supply of milk. The payment of these subsidies by the Commodity Credit Corporation through market administrators under the Federal milk marketing agreement and order program was continued throughout the year except in two marketing areas. The payments in the New York metropolitan marketing area were terminated on April 25, 1946, and in the Omaha-Council Bluffs Marketing area on May 10, 1946.

Table 5. Number of producers who received payments, quantity of milk and butterfat sales claimed, and expenditures in the Dairy Production Payment Program by fiscal years, 1943-44, 1944-45, and 1945-46

Fiscal year	Number of producers	Payments on milk			Payments on butterfat			Total cost of
		U. S. weighted average rate per 100 pounds	Sales of milk claimed	Amount of payments	U. S. weighted average rate per pound	Sales of butterfat claimed	Amount of payments	
			Million pounds	1,000 Dollars		1,000 Pounds	1,000 Dollars	1,000 Dollars
	Thousands	Cents			Cents			
1943-44 (October-June)	1,800	42.6	45,254	192,825	5.8	536,559	31,229	224,054
1944-45	1,860	55.6	68,335	379,770	9.9	749,266	74,213	453,983
1945-46	2,100	58.3	71,400	416,400	15.4	766,000	118,100	534,500

Table 6. Subsidy payments to manufacturers of Cheddar cheese by
fiscal years 1943-46

Fiscal year	Total payments	Recoveries on sales to Government	Net Cost	Amount of cheese on which payments were made
	Dollars	Dollars	Dollars	Pounds
1942-43 (Dec.-June)	15,985,590	-	15,985,590	424,603,541
1943-44	29,342,631	3,526,660	25,815,971	771,859,687
1944-45	32,313,345	15,431,775	16,881,570	832,600,408
1945-46 (July-Jan.)	16,197,373	6,257,426	9,939,947	412,918,628
Total	93,838,939	25,215,861	68,623,078	2,441,982,264

As of June 30, 1946, the program was in operation in 10 milk marketing areas. These areas and the rates of payment per hundredweight of fluid milk, as of that date, were as follows:

	<u>Cents per cwt.</u>
Philadelphia	35
Philadelphia, Suburban	40
Schuylkill, Pennsylvania. Area No. 4, except Hazleton	40
Hazleton	26
Lehigh (Pennsylvania Area No. 6)	33
Harrisburg (Pennsylvania Area No. 8)	38
York (Pennsylvania Area No. 12)	33
Wilmington, Del.	35
Baltimore	35
Washington, D.C.	28
Fort Wayne, Inc.	26

PLANT FACILITIES

The Branch continued to give technical assistance on the operation of milk drying facilities financed with loan-lease funds and made recommendations to the Plant Financing Division of the Fiscal Branch on policy in connection with the acquisition and disposal of these facilities.

SURPLUS PROPERTY DISPOSALS

The Department disposed of in domestic channels dairy products declared surplus by other Government agencies. The sales of these products, except butter, were made by the Branch. Sales of butter were made through the Dairy Products Marketing Association acting as agent for the Department.

The largest sales were of butter declared surplus by the Army and the War Shipping Administration. This butter was purchased during the season of heavy production in 1945 to meet requirements throughout the following year. With the rapid demobilization of Army personnel, there were surplus supplies of butter in Army stocks. This butter was sold in accordance with the established policies for disposing of surplus commodities in domestic outlets in a manner which would assure the orderly marketing of the product, would comply with priority regulations, and protect the brands of the vendors who had originally sold the butter to the Government agencies. Substantially all of the butter was regraded and reweighed before it was offered for sale.

In addition to the surplus butter, there were small quantities of other surplus dairy products which were disposed of by the Department. The quantities of these products are shown in table 7.

INVENTORY DISPOSALS TO UNRRA, LEND-LEASE CLAIMANTS, AND OTHER FOREIGN GOVERNMENTS

During the past year, the Department continued to procure dairy products for UNRRA, lend-lease claimants, and other foreign governments. When lend-lease shipments were terminated on V-J day, arrangements were made with lend-lease claimants for the purchase of long-term credit of those products which had previously been procured by the Department for these claimants. When these so-called "pipeline shipments" were completed, the former lend-lease claimants purchased through the Department on a cash basis.

About 675,000 tons of dairy products were shipped during the past fiscal year, with 45 percent of the total going to UNRRA, 35 percent to lend-lease claimants, and 20 percent to foreign governments on a cash basis. Of the total amount of dairy products shipped, evaporated milk accounted for 55 percent, cheese 18 percent, and nonfat dry milk solids 14 percent. Dried whole milk, sweetened condensed milk, and butter made up most of the balance of the total in that order of importance.

OTHER INVENTORY DISPOSALS

In addition to selling dairy products which were declared surplus by other Government agencies, the Branch sold dairy products held by the Commodity Credit Corporation to domestic purchasers for the purpose of reducing Commodity Credit Corporation inventories or for disposing of stocks which were out of condition. The amount of dairy products sold to purchasers in the United States is shown in table 8.

During the past year the inventories held by the Commodity Credit Corporation of dairy products 6 months old and over were lowered from a total of 96,472,558 pounds held on July 1, 1945, to 456,913 pounds held on June 30, 1946. Part of this inventory was sold in domestic outlets in the United States and part was sold to foreign claimants. In table 9, storage holdings of dairy products 6 months old and over on July 1, 1945, and on June 30, 1946, are shown.

Table 7 - Sales of surplus dairy products in domestic outlets during the fiscal year ended June 30, 1946.

Commodity	Surplus from other agencies
	Pounds
Butter	81,281,885
Cheese	250,659
Sweetened Condensed milk	28,224
Milk sugar	10,400
Malted milk tablets	91,358
Dry milk	560,100

Table 8 - Dairy product sales of Commodity Credit Corporation stocks, July 1, 1945 - June 30, 1946

Commodity	Quantity
	Pounds
Butter	13,061,779
Evaporated milk	6,425,298
Cheese	220,508
Sweetened condensed milk	234,738
Butter oil	7,003
Dry whey	29,250
Dry milk	876,348
Baby foods	1,350
Milk powder sweepings	39,198

Table 9. Storage holdings of dairy products 6 months of age and over

Commodity	:	:	:
	:	July 1, 1945	June 30, 1946
	:	Pounds	Pounds
Army spread	:	272,602	-
Carter's spread	:	452,175	-
Cheese, natural	:	2,185,080	254,914
Cheese, processed	:	323,490	199,920
Milk, condensed	:	4,805,230	-
Milk, evaporated	:	25,520,261	87
Milk, malted	:	-	492
Milk, nonfat roller	:	20,779,771	1,500
Milk, nonfat, spray	:	26,301,534	-
Milk, dry whole	:	15,421,728	-
Dried whey	:	410,687	-
Total	:	96,472,558	456,913

